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STOCK MARKET INTEGRATION IN LATIN AMERICA

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Executive Summary

This paper is part of a larger study examining the integration of securities markets in several regions of the world as well as in single-country federal systems. This component of the study focuses on securities market integration in Latin America. For the purposes of this study, securities market integration refers to a condition where investors can buy and sell equities issued in one country within a region, in another country within that same region without restriction. The degree of integration is measured by determining the extent to which identical securities can be issued and traded at essentially the same price across the markets after adjustment for foreign exchange rates.

The development of equities markets in Latin America accelerated dramatically during the 1990s in response to liberalization policies adopted by the countries of the region. Privatization programs that began in Chile and Mexico and expanded to the rest of the region led the surge. Privatization had the dual effect of increasing the number of publicly-traded, privately-held companies and significantly expanding the number of participating national investors, e.g., workers who acquired shares as part of the privatization process. Further, the privatization of public pension systems created a strong new client base for national stock markets. The result was rapid growth and expansion of the securities markets of the region.

This study focuses on integration in Latin America in the following areas: 1) integration of U.S. and Mexican securities markets; 2) integration of Central American markets; and 3) the scope and focus of the integration-related activities of the Council of Securities Regulators of the Americas (COSRA). Each area provides an interesting perspective on one or more aspects of securities market integration. Collectively, the study of these three areas provides an interesting summary of issues and responses to integration in the region.

Integration of the U.S. and Mexican Securities Markets

The study of integration of the U.S. and Mexican securities markets is really a study of a securities instrument known as the American Depositary Receipt (ADR). As stated above, securities market integration refers to a condition where investors can in one country within a region buy and sell without restriction equities that are issued in another country within that same region, and as a result identical securities are issued and traded at essentially the same price across the markets after adjustment for foreign exchange rates. In examining whether integration exists between the U.S. and Mexican securities markets, we focused on the extent to which shares issued and traded in Mexico can also be traded in the U.S. as ADRs without restriction at essentially the same price as in Mexico. First we examined the number of companies traded in both

the U.S. and Mexico, and then determined the depth of integration between the two markets. We considered factors such as: 1) the number of cross-listed companies relative to the total number of companies listed in Mexico; 2) the volume and economic significance of the cross-listed companies to the U.S. and Mexican markets; and 3) the differentials in trading prices between the two markets.

Prior to 1990 there was limited interaction between the U.S. and Mexican markets. The successful privatization of Telefonos de Mexico (Telmex) through a public offering that included ADRs in May 1991 led to accelerated growth in cross-listings of Mexican securities in the U.S. The number of cross-listed companies has continued to grow during the 1990s and currently, 70 Mexican equities from 60 different companies are cross-listed in the U.S. Forty percent of listed securities representing nearly 90 percent of Mexico's market value are directly available to U.S. investors as ADRs. In addition, Mexican ADRs have historically been the most significant cross-listed instruments in the U.S. securities market.

The final factor we examined was the trading price of cross-listed securities by analyzing the differences in the daily high and low trading price on the Bolsa Mexicana de Valores (BMV) and the New York Stock Exchange (NYSE) for five issues on each trading day during a one month period. We adjusted the Mexican prices to take into account the ratio of Mexican shares per ADR and the prevailing exchange rate and calculated the differential in trading prices on the two exchanges. We found that there was virtually no difference in the daily trading prices of the cross-listed securities on the two exchanges and that the markets appear to be essentially integrated under our definition. In other words, the Mexican and U.S. securities markets have developed a high degree of integration with respect to the equities we analyzed.

The general conclusion regarding the reasons for integration of the two markets is that successful integration is led by the marketplace, with market demand supported by the appropriate governmental macro and specific policies. The Mexican government, seeking capital investment to support privatization of its state-controlled enterprises, recognized a demand for investment diversification in the U.S. market and carefully structured privatization packages that permitted the realization of mutual benefits to Mexican companies and U.S. investors. The U.S. established a legal and regulatory framework that was conducive to entry by foreign issuers and made possible the development of the ADR instrument. The resulting combination has been an increasingly integrated market during the 1990s.

Central American Integration

The geographic compactness of Central America, together with the small size of its markets and a relatively homogenous culture and language, have long marked the region as a prime candidate for economic integration. With the economic liberalization of the late 1980s, the financial markets in the region began to expand and deepen significantly. By 1994, when the Bolsa de Valores de Nicaragua was organized, every country in the region had at least one exchange, and Costa Rica, Guatemala, and Honduras had two each.

Central American Equities Markets
1996

Country	No. of Companies	Volume (millions US$)	Market Capitalization (millions US$)
Costa Rica	114	14.0	782.0
Nicaragua	n / a	n / a	n / a
El Salvador	49	9.8	450
Honduras	111	.5 (1995)	338 (1995)
Guatemala	9	3.8	167.8

(Source: Emerging Stock Markets Factbook 1997)

The development of stock exchanges in the region has been driven by private sector initiative and market demand, in most cases without existence of a specific legal and regulatory framework. Supervision is exercised pursuant to broad authority granted by banking laws or other general financial sector legislation.

The principal problem with integration, as defined in this paper, in the Central American region is the lack of trading in equities. Trading on the exchanges is almost exclusively in government paper, corporate bonds and bank paper. The volume of equities trading as a percentage of the total volume traded on the exchanges is so limited as to be almost insignificant.

The principal focus at present is on creating the necessary infrastructure to permit cross-border trading in the region. These activities, driven by the private sector but supported by donor organizations, include efforts to: 1) provide reciprocal access to trading floors (Guatemala and El Salvador); 2) establish a uniform system of custody throughout the region; 3) cross-list debt instruments; 4) simultaneously issue government debt on more than one exchange in the region; and 5) establish a common electronic trading platform for the exchanges of the region. These efforts will be helpful in establishing the basic systems and infrastructure necessary to support regional trading. Eventually, this could lead to regional trading of equities in Central America. Although for the most part governmental policies are not impediments to further integration in the region, it is anticipated that there may be resistence from regulators as the markets continue to expand.

Council of Securities Regulators for the Americas (COSRA)

COSRA was founded in 1992 in an effort to promote the development of securities markets in the Americas through improved cooperation among the regulatory agencies in the participating countries of the region. COSRA is open to all regulatory agencies for securities markets in the region of the Americas (North, South and Central America and the Caribbean) and has met annually since its founding 1992 to discuss common issues related to securities market development. COSRA facilitates integration by providing a forum for discussing common problems and working with members to establish guiding principles and general guidelines to address the problems.

As securities markets have expanded in the region, pressures toward regional integration have increased. Regulators throughout the region are faced with the common problem of deciding how much and what kind of regulation is appropriate for an integrated market. Recognizing COSRA's role in the region, the Inter-American Development Bank (IDB) has discussed funding through its Multilateral Investment Fund (MIF) a variety of activities with COSRA to strengthen regulation of securities markets in the region.

Although much of what has been stated in COSRA's documents is too basic, obvious, or general to be directly useful for the development of standards and procedures for the regulation and supervision of securities issuers, securities markets, and securities brokers and dealers, it does provide evidence of cooperation among many of the countries of the region to define a basic framework for addressing some difficult issues related to integration and indicates that the countries have gone beyond merely identifying issues. It also provides clear recognition that an appropriate regulatory and supervisory infrastructure is necessary, not only for the development of securities markets in each country of the region, but also to achieve whatever gains can be realized from increased integration of the region's securities markets. The existence of COSRA ensures that issues can be discussed, information disseminated, and frameworks established for the advancement of a regionally integrated market.

Conclusion

The general conclusion reached by this paper is that is that successful integration is led by the marketplace, with market demand supported by the appropriate governmental macro and specific policies. The U.S.-Mexican experience of the 1990s illustrates a well-designed Mexican government privatization program creating a capital investment demand that was responsive to the need for investment diversification in the U.S. market. The integration of markets was driven by the privatization process but within the ADR mechanism available under the existing U.S. legal and regulatory framework. Similarly, integration efforts in Central America are market-led, and although the region lacks sufficiently developed equities markets to realize the integration contemplated in this study, current initiatives are laying the foundation for the future integration. Government policies can facilitate and support the development of integration, but only if they recognize market forces and establish a framework that responds positively to those forces.

I. Introduction

This paper is one component of a larger study, directed by Philip A. Wellons, which examines the integration of securities markets in five multi-country regions of the world and four single-country federal systems.[1] The format and definitions for this component are the same as those in the larger study. In the context of this and the companion papers, we define stock market integration as meaning that investors can buy and sell shares in the integrated markets within a region without restriction and that identical securities are traded at essentially the same price across the markets after adjustment for foreign exchange rates.[2] We have defined a region as contiguous nations bound by trade and other links.[3]

This component of the integrated study focuses on securities market integration in Latin America. The development of securities markets in this region has accelerated dramatically during the 1990s as international and national investors have responded to liberalization policies adopted by the countries of the region. Key factors in the surge have been the privatization programs which began in Chile and Mexico and expanded to the rest of the region. Privatization had the dual effect of increasing the number of publicly-traded companies and in many cases significantly expanding the number of participating national investors, e.g., workers who acquired shares as part of the privatization process. Further, the privatization of public pension systems has created new clients for national stock markets. The result has been rapid growth and expansion of the securities markets of the region.

An exhaustive review of integration as it relates to all of the stock markets in the hemisphere is beyond the scope of this effort. Rather, this component of the study will

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[1] The paper examines multi-country integration in the European Union, Southeast Asia, China / Hong Kong, the Mid-East, and Latin America. Single country federal systems reviewed include the U.S., Canada, India, and Germany.

[2] This and its companion papers focus solely on integration of equities markets. Cross-border trading in debt instruments is not within the scope of the discussion.

[3] Wellons, p. 1.

focus on integration as it relates to three distinct areas: 1) the U.S. and Mexico; 2) Central America; and 3) the activities of the Council of Securities Regulators of the Americas (COSRA). Each area provides an interesting perspective on one or more aspects of securities market integration. Collectively, the examination of these three areas provides a fairly complete summary of the issues and responses to integration throughout the region. For example, the study reviews the American Depositary Receipt (ADR) mechanism in the context of the examination of integration of the U.S. and Mexican securities markets. The issues and effects of the ADR mechanism in the Mexican context are representative of those that affect ADRs from other countries in the region, e.g., Chile, Argentina, etc., where the ADR mechanism has been used. Likewise, the discussion of integration efforts in Central America incorporates practical issues related to integration such as clearing and settlement, currency exchange, and integrated technologies that are relevant in other regional integration efforts. The discussion of COSRA activities provides a view of the problems related to a multilateral effort to integrate the securities markets of the Americas by promoting the establishment of uniform policies and practices.

The general conclusion reached regarding integration in the hemisphere is that successful integration is led by the marketplace, with market demand supported by the appropriate governmental macro and specific policies. This conclusion is supported by the experience of Mexico in the early 1990s, when the Mexican government, seeking capital investment to support privatization of its state-controlled enterprises, recognized a demand for investment diversification in the U.S. market and carefully structured privatization packages that permitted the realization of mutual benefits to Mexican companies and U.S. investors. The integration of exchanges driven by the privatization process occurred primarily through mechanisms available in the U.S. legal and regulatory framework which had been in place for more than fifty years, but were not utilized because of lack of market demand. Similarly, recent integration efforts in Central America are market-led, and although the region lacks sufficiently developed equities markets to realize the integration contemplated in this study, current initiatives have advanced well beyond the government-led efforts of the past thirty years. Government policies can facilitate and support the development of integration, but only if market demand exists and the private sector has the economic incentive to initiate cross-border trading.

II. The U.S. and Mexican Securities Markets

A. Introduction

From independence until the mid-1980s, Mexico and the United States lived as “distant neighbors.”[4] In spite of their geographic proximity, the two countries followed widely

[4] Distant Neighbors, Riding, Alan, 1986.

divergent paths with regard to economic and trade policy during much of the 20th century. However, the financial and economic interdependence of the two countries was rediscovered with the Mexican economic crisis of the early 1980s, which had a profound impact on the financial sector in the U.S. In 1983, Mexico, with U.S. encouragement and support, began an economic restructuring plan focused on 1) privatization of state-owned enterprises, 2) economic liberalization and trade reforms, and 3) liberalization of investment regulations. Mexico, the United States and Canada also began negotiations to establish a North American free trade zone, a process that culminated in December 1992 with the signing of the North America Free Trade Agreement (NAFTA). NAFTA provides a framework for greater economic integration and commits the three countries to pursue more consistent economic, labor and environmental policies.

Mexico's liberalization program, coupled with the adoption of NAFTA and the expansion of the U.S. securities market, created a new market dynamic with regard to the securities markets of Mexico and the U.S. The Mexican government's privatization program was predicated on access to private capital. The demand for that capital accelerated in the early 1990s as some of Mexico's largest state-controlled enterprises were prepared for sale. At the same time, U.S. investors were investing in stocks at unprecedented levels, and brokers were looking for new investment options as ways to diversify portfolios and manage risk. The coincidence of the demand for capital in Mexico and the unprecedented supply of investment capital in the U.S. market created the right market conditions for integration of the U.S. and Mexican markets. The degree to which these conditions have led to the integration of U.S. and Mexican securities markets during the 1990s is a question worth examining in greater detail. In this section, we will attempt to determine the level of integration that has been achieved between the U.S. and Mexican markets and identify the factors that led to this integration.

B. Integration of the U.S. and Mexican Securities Markets

1. Introduction

As discussed above, securities market integration refers to a condition where investors can buy and sell equities issued in one country within a region, in another country within that same region without restriction, and as a result identical securities are issued and traded at essentially the same price across the markets after adjustment for foreign exchange rates. In examining whether integration exists between the U.S. and Mexican securities markets, we will focus principally on the extent to which shares issued and traded in Mexico can also be traded in the U.S. without restriction, and are traded at essentially the same price as in Mexico.[5] The initial inquiry in determining

[5] In theory, a fully integrated U.S.-Mexican securities market would imply that shares from each country could be issued and traded in the other country. In practice,

whether integration exists in the U.S.-Mexican region is whether, in fact, any companies from one country are cross-listed in the other. If cross-listing exists, the next inquiry is to determine the breadth and depth of the interaction between the two markets. In making this determination, we will consider factors such as: 1) the number of cross-listed companies relative to the total number of companies listed in Mexico; 2) the volume and economic significance of the cross-listed companies to the U.S. and Mexican markets; and 3) the differentials in trading prices between the two markets.

a. The Mexican Securities Market

Mexico's securities market is relatively centralized and basic in its structure and operation. The market is focused around one national exchange, the Bolsa Mexicana de Valores (BMV), which has only one trading floor. The BMV was founded in 1933, and is a privately-held company owned by its 26 member brokerage houses. Authorized brokers, who have offices in several of Mexico's 31 states, place and fill orders on behalf of investors using a bid and offer trading system much like the one found on the New York Stock Exchange (NYSE). In May 1993, the BMV implemented an automated trading system (Sistema Automatizado de Transacciones Operativas or SATO) through which offers and bids can be posted electronically. No significant regional or state exchanges exist, and the BMV is the only national exchange. As a result, the BMV, for all practical purposes, constitutes the Mexican securities market.

The BMV currently has 171 listed equities and a total market capitalization of US$116 billion.[6] Daily trading volumes average US$173 million. The IPC index, which reached a post-devaluation low of 1,448 in March 1995, has climbed steadily since and stood at 5,234 as of September 1997. Like other countries in Latin America, Mexico's securities market is dominated by debt instruments. In 1995, equities accounted for 4.5 percent of total volume traded on the BMV, an all-time high. The average percentage volume of equities for the period 1990-1995 was 2.38 percent.[7] Investment in the securities market

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integration flows according to market incentives, not according to what is theoretically possible. In the case of Mexico and the U.S., the integration has been relatively one-sided in that Mexican stocks have flowed to the U.S. market, while the reverse has not occurred at significant levels.

[6] This is as of March 1997. This figure is significantly below the all-time high of US$ 222.3 billion reached in February 1994, prior to the crash resulting from the devaluation of the Mexican peso in December 1994.

[7] Bankers acceptances, bank certificates of deposit, commercial paper, and commodity bonds dominate trading in short term debt instruments on the BMV. Development bonds, industrial development bonds, adjustable bonds, corporate bonds, and real estate share certificates are the predominant long term debt instruments in the Mexican market.

through the BMV has been driven by investment in mutual funds managed by local stock brokerage houses or banks.[8] Prior to the financial crash of 1994, the number of funds reached 232, managed by 43 different fund managers.

The Mexican securities market is supervised by the National Banking and Securities Commission of Mexico (NBSC), a decentralized agency of the Ministry of Finance and Public Credit charged with the regulation and supervision of the Mexican financial sector. The NBSC was created to ensure an integrated approach to financial sector supervision. In the post-1994 environment, the NBSC has focused on facilitating the recovery and stabilization of the financial sector. Part of the recovery process is a focus on improving regulations related to disclosure and transparency in the securities market.

During the 1990s, the principal characteristic of Mexico's securities market has been its high volatility. Initially, market concerns over whether NAFTA would be successfully concluded caused significant instability. After NAFTA was concluded, the market rallied in anticipation of a victory by the ruling Partido Revolucionario Institucional's (PRI) presidential candidate, Mr. Colosio. Mr. Colosio's assassination and the installation of Ernesto Zedillo as the PRI's replacement candidate increased volatility in March 1994. As Mr. Zedillo's election became assured, the market rebounded. Then, in December 1994, Mr. Zedillo was forced to devalue the peso shortly after taking office, and the market plummeted again. Additional destabilizing events related to the rebellion in Chiapas and the ongoing financial crisis and corruption scandals, together with continued high real interest rates, have adversely affected the recovery of stocks.

b. The U.S. Securities Market

In contrast to the Mexican market, the securities market in the U.S. is complex and decentralized, yet highly integrated. Three exchanges, the New York Stock Exchange (NYSE), the National Association of Securities Dealers Quotation System (NASDAQ), and the American Stock Exchange (AMEX), compete at the national and international level. Dozens of smaller regional and local exchanges, such as the Chicago, Philadelphia and Pacific exchanges compete for business in specialized and regional markets. Additional trading occurs in the over-the-counter (OTC) market, and on closed trading systems such as Portal that are available only to institutional investors. The result is a large, multi-leveled, decentralized securities market.

[8] Mutual funds available to investors included fixed income mutual funds, corporate mutual funds, common stock mutual funds and fixed income funds with foreign exchange cover.

During 1996, the three national exchanges traded more than 248 trillion shares of nearly 11,000 different securities issued by more than 9,000 companies. Collectively, the exchanges have a market capitalization of just over $9 trillion. The U.S. securities market is supervised principally by the U.S. Securities and Exchange Commission (SEC). In addition, states regulate some aspects of securities markets under the U.S. federal system. The National Securities Clearing Corporation (NSCC) clears and settles 99 percent of all equities traded on the three national exchanges.

2. Cross-listing of Mexican Securities in the U.S.

That the U.S. and Mexican securities markets would develop some degree of integration appears almost inevitable given their geographic proximity. However, prior to 1990 there was limited interaction between the two markets. As a result of several factors, including the liberalization of the Mexican economy, the resulting privatization of major Mexican enterprises, and the expansion of U.S. capital markets, the two markets began to develop some degree of integration early in the 1990s. A key aspect of the interaction between the markets was the emergence of an equity instrument for cross-listing Mexican instruments in the U.S. known as the American Depositary Receipt (ADR). The ADR became the preferred mechanism by Mexican companies for accessing U.S. capital markets.

The May 1991 public offering of stock associated with the privatization of Telefonos de Mexico (Telmex) was the event that led to an accelerated growth in cross-listings of Mexican securities in the U.S., although Telmex was not the first Mexican company listed and traded in the U.S. as an ADR. The investor response to the Telmex offering demonstrated that a significant demand existed among investors to participate in companies from Mexico and other emerging markets. The growth in cross-listings of foreign equities in the U.S. has continued to expand significantly during the 1990s. Currently, 70 Mexican equities from 60 different companies are cross-listed in the U.S. A listing of the issuers, series, the ratio of local shares to ADRs, and the trading location in the U.S. market for each cross-listed Mexican equity is found in Annex A.

The fact that 70 Mexican equities are cross-listed and traded in the U.S. demonstrates that the two markets have reached at least some degree of integration. In the following sections, we will explore the degree of integration reached by examining a number of different factors related to market significance, accessability, volume, and price in order to determine whether real and full integration is occurring.

3. Breadth and Depth of Market Integration

The definition of integration we are using for this study requires that there be more than a mere cross-listing of equities between two markets. It requires that investors have access to equities in both markets without restriction. Hence, a U.S. investor may have access to 70 Mexican equities, but those equities might represent a negligible percentage of all equities traded in the Mexican market, effectively depriving the investor of a large part of the Mexican market. In order to determine whether the market is integrated, we must determine the significance of the cross-traded equities in each of the two markets, assess the accessibility of the overall Mexican market for U.S. investors, and determine whether the pricing of equities across the two markets reflects an integrated or segmented market. In this section, we will examine each of these factors to determine the significance that the cross-listed shares have in each market.

a. Breadth of Market Integration from the Mexican Perspective

As mentioned previously, the Mexican securities market is relatively confined, consisting principally of the BMV, the only exchange in the country that lists equities. An examination of the trading levels and issues found will provide some perspective on the significance that the cross-listed companies have for the Mexican market. The BMV lists approximately 200 issues from 171 Mexican companies. As stated above, 70 issues from 60 Mexican companies are cross-listed in the U.S. using the ADR mechanism. These numbers represent 30 and 41 percent respectively of the securities and companies listed on the BMV. When viewed in these terms, the cross-listed companies indicate a moderate degree of integration in that the U.S. investor has access in the U.S. to investment in less than one third of Mexico's listed securities and less than one half of its listed companies.

When measured in terms of trading volumes and market capitalization, the cross-listed companies reflect a higher degree of integration. All of the 60 companies cross-listed in the U.S. are among Mexico's largest 100 companies. One commentator calculates that cross-listed stocks account for more than 60% of the trading volume on the BMV.[9] Another study found that as of March 1995, companies representing over 87% of the Mexican market indices were trading in the U.S.[10] These data reflect a higher degree of integration between the U.S. and Mexican markets than is reflected by the number and percentage of listed Mexican companies cross-listed in the U.S. market. In fact, the data support the proposition that U.S. investors have effective access to a significant percentage of the Mexican market, indicating that the Mexican market has largely become integrated with the U.S. market.

b. Breadth of Market Integration from U.S. Perspective

Another indicator of the degree of market integration achieved between the U.S. and Mexican markets is the impact that cross-listing of Mexican companies has had on the U.S. market. Foreign securities, especially in the form of ADRs, have become an increasingly important factor in the U.S. securities market during the 1990s. In 1996,

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[9] Handbook of Depositary Receipts, p. 268.

[10] Hargis, Ken, ADRs in Emerging Equity Markets, Market Competition or Fragmentation, 1996.

the combined trading value of foreign securities (mainly in the form of ADRs) on the NYSE and the NASDAQ reached nearly $460 billion. Mexican ADRs have been a significant part of this growth in foreign securities trading. Although it is difficult to obtain data for all Mexican shares trading in the U.S., Hargis has calculated that from 1990 to 1994 trading of Mexican equities on U.S. exchanges increased from $2.5 to $83 billion as reflected in the following table.

Table 1: Values of Mexican ADRs Traded in the U.S. (1990-1994)
(in US$ millions)

Year	Value of ADRs Traded on U.S. Exchanges	Value of ADRs Traded (Mexico)	No. of Listed Companies
1990	2,577	12,155	2
1991	13,498	31,456	4
1992	26,261	44,567	6
1993	37,307	62,519	18
1994	83,496	82,737	25

(Source: Hargis)

When viewed in the context of specific exchanges, the market impact of Mexican securities can be seen more clearly. For example, the NYSE lists 29 Mexican securities from 25 companies. For 1996, the shares of two Mexican companies, Telefonos de Mexico and Grupo Televisa ranked among the top 200 instruments traded on the NYSE in terms of consolidated trading volume, with 36,055,900 and 14,280,500 shares traded respectively. Telefonos de Mexico also ranked 72nd measured by the dollar value traded.

More than $337 billion in foreign equities were traded on the NYSE during 1996. All Mexican equities listed ranked among the 200 most active foreign instruments traded during 1996, with a volume of US$29.4 billion, or almost 10 percent of all shares traded. Telmex Series L shares, which have consistently been among the ten most actively traded non-U.S instruments since they were listed in 1991, continued strong in 1996, ranking third in terms of the average daily value of shares traded.[11]

4. Depth of Integration as Measured by the Trading Price Differentials of Cross-listed Companies

[11] In 1996, the most actively traded foreign instruments on the NYSE were Ericsson (Sweden), Hanson (UK), and Telmex (Mexico). Source: Bank of New York.

Under our definition of integration, one of the most important factors in determining the extent to which the Mexican and U.S. securities markets have become integrated is the difference in price that exists between the two markets. In a fully integrated market, prices will be identical or almost identical, as two or more markets react in unison to market stimuli. The degree to which the prices differ demonstrates the degree of integration left to be achieved. In this section of the paper, we will examine the extent to which prices for shares in each market track the prices of the other.

As mentioned previously, there are 70 Mexican issues traded in the U.S. market. The shares are listed in the following markets: 1) NYSE: 29 issues; 2) Over-the-Counter / Pink Sheets: 14 issues; 3) Portal: ten issues; 4) SEAQ: seven issues; 5) NASDAQ: six issues; 6) AMEX: two issues and 7) Unidentified: two issues. In order to provide a complete picture of integration of the two markets, this study would have to track the difference between the Mexican and U.S. price for each issue in each of the markets listed above. The limitations related to data and the scope of this paper do not permit such an in depth analysis. Rather, we will analyze the price variations of five issues (Telefonos de Mexico, Grupo Televisa, Empresas ICA, Grupo Tribasa, and Vitro, S.A.) traded on the BMV and the NYSE during the month of April 1997. We recognize that by selecting five of the most prominent Mexican companies that are traded on arguably the most visible U.S. exchange, we are analyzing those companies whose trading prices are likely to have less differentiation than stocks that are not as active in the market. As a result, we are not certain that differences in price applicable to these five companies would be typical of the price differentials associated with other Mexican instruments.

To determine the differences in trading prices, we obtained the daily high and low trading price from the BMV and the NYSE for each of the five issues for every trading day during the month in question. We then adjusted the Mexican prices, taking into account the ratio of Mexican shares per ADR and the average daily exchange rate of pesos per U.S. dollar so that we had a dollar to dollar comparison of daily high and low trading prices on the NYSE. We compared the high and low market prices on the NYSE and BMV to determine the difference in prices measured in terms of dollars and as a percentage. This provided us with the dollar and percentage differential in price for each of the five issues for each trading day of the month. We then totaled and averaged the monthly figures for each issue and prepared an overall average for all issues for the entire period. The results are summarized in Table 3. Spreadsheets containing the data and calculations for each separate security are found in Appendix A.

Table 2:
Price Differentials of Five Mexican Companies
Cross-listed on the BMV and NYSE
(Comparison of daily high and low trading prices, April 1997)

		Average difference		Average difference	
		(in U.S. dollars)		(percentage)	
Cross-listed Company	**Series**	**High**	**Low**	**High**	**Low**
Telefonos de Mexico (TMX)	**L shares**	**$0.05**	**($0.17)**	**0.13%**	**-0.42%**
Grupo Televisa (TV)	**CPO**	**$0.01**	**($0.08)**	**0.07%**	**-0.33%**
Empresas ICA (ICA)		**$0.01**	**($0.08)**	**0.10%**	**-0.55%**
Grupo Tribasa (GTR)		**$0.02**	**($0.07)**	**0.37%**	**-1.13%**
Vitro Sociedad Anonima (VTO)		**($0.02)**	**($0.07)**	**-0.23%**	**-0.85%**
COMPOSITE AVE. DIFFERENCE		**$0.02**	**($0.09)**	**0.09%**	**-0.65%**

Data Source: BMV and NYSE

As can be seen from Table 3, the average dollar difference in price for shares traded on the BMV during April 1997 was $.02 for the high trading price and -$.09 for the low trading price. When measured as a percentage of the NYSE price, the variation was less than one percent (.09% for the high and -.65% for the low). The price differences that do exist are so minimal that they could possibly by affected by factors such as exchange rate fluctuations on a given trading day, reaction time required to respond to market information, etc. It may also be possible that differentials in prices attract arbitrage opportunities that result in rapid adjustments in the markets. In any event, the figures above indicate a high degree of integration between the U.S. and Mexican markets. If this level of price differentials is found to be representative of all cross-listed Mexican securities, it would indicate not only significant integration of the five selected issues, but of the broader market as well.

5. Summary

When viewed from both the Mexican and U.S. perspective, there is considerable data to indicate that the U.S. and Mexican securities markets have reached a relatively high degree of integration during the 1990s. Data indicate that 40 percent of listed securities representing nearly 90 percent of Mexico's market value are directly available to U.S. investors. In addition, Mexican securities cross-listed in the U.S. are a significant factor in the U.S. securities market. These observations are further supported by the analysis of five selected cross-listed securities which indicates that the instruments are trading at virtually identical prices on NYSE and the BMV. Based on our analysis, it appears that two markets have essentially become one.

C. Factors Facilitating Integration of the U.S. and Mexican Stock Markets

In this section, we discuss the factors that have facilitated integration of the U.S. and Mexican securities markets. We review Mexican and U.S. policies that act either to facilitate or impede market integration.

1. Mexican Policies That Facilitate Integration

a. Mexico's Privatization Program

One of the key elements that has led to integration of the U.S. and Mexican securities markets is the Mexican government's willingness to liberalize its economy and privatize many of its state-held enterprises. When President Miguel de la Madrid assumed office in 1982, he was facing the most critical economic crisis since the Depression of the 1930s. Early efforts that focused on minor reforms yielded no results, and finally, in an effort to overcome the crisis, the Mexican government adopted an economic restructuring plan that altered the very foundations of the Mexican economy. The reforms focused on three areas: state reform (reduction of state participation in economy through liquidation and privatization); opening the economy (liberalization and trade reforms); and incentives for private sector growth (improved environment for national and foreign investment).

In 1983, the Mexican government controlled approximately 1,200 enterprises.[12] During the ensuing decade that number was reduced to approximately 250 enterprises. The Mexican strategy was to initiate its program with the smaller, more profitable, state-owned businesses to gain experience in the process, to acquire a pool of investment capital to reinvest in some of the larger, state-held enterprises, and to utilize principally Mexican capital markets to finance the early privatizations. During the six-year de la Madrid presidency, approximately 600 firms were privatized or liquidated, relying principally on Mexican capital. The total proceeds realized by the government from the initial six-year privatization effort was approximately US$1 billion.

[12] The numbers vary depending on the methodology used to categorize the state's control/participation in the enterprise. Galal and Shirley, and Baer and Birch put the number at 1,155, while Boeker uses 1,228.

President Carlos Salinas de Gortari took office in 1988 and immediately took steps to move Mexico's privatization program to the next level, i.e., privatization of Mexico's largest state-owned enterprises. These included companies in strategic sectors of the economy such as petroleum, telecommunications, mining and banking. As promised in his campaign, he focused his initial efforts on the telecommunications sector, and on the state-controlled telephone company, Telmex, the country's second largest company and one of the thirty largest companies in the world.[13] In 1988, well before Telmex's privatization, the Mexican government initiated a major investment program to expand and modernize the telephone system with a view to enhancing its value before privatization. Recognizing that the privatization of Telmex required the support of international capital markets, Mexico undertook a two-step process to privatize the company. First, in 1990, the Mexican government sold by bid its controlling interest in Telmex to a consortium made up of Mexico's Grupo Carso and two foreign common carrier companies, Southwest Bell of the U.S. and France Cable et Radio, for US$1.76 billion. The second step of the privatization was to increase Telmex's capital stock by 1.5 times through the issuance of new non-voting L shares. Because the L shares were non-voting, Mexican law was interpreted to permit foreigners to hold L shares without violating Mexico's constitutional or statutory prohibitions against foreign ownership and control of companies in the strategic telecommunications sector. The Mexican government opted for a simultaneous public offering of $2.27 billion of Telmex shares on the NYSE and other world exchanges, which at that time was the largest public offering ever attempted.

The Mexican government followed a similar strategy with respect to Mexico's other large banking and industrial enterprises. The strategy focused on issuing shares on both the BMV and the NYSE as a means to attract capital from the U.S. and European markets. Mexico's privatization policy thus became a key to integrating the BMV and NYSE by creating privatization packages that were attractive to international investors and offering them simultaneously on both exchanges.

b. Opening Mexican Securities Markets

In addition to its privatization program, Mexican government policies support integration of its securities market with other world markets in at least two ways. First, Mexico has made a decision not to interfere with or regulate participation by Mexican

[13] In 1987 during his presidential campaign, Salinas stated that "telecommunications will become the cornerstone of the program to modernize Mexico's economy." As quoted in Boeker, p. 61.

companies in the U.S. market through the ADR mechanism. This policy of non-interference has facilitated the rapid growth of Mexican ADR programs and, as discussed above, the integration of the two markets.

On another front, the Mexican government has taken affirmative steps to open its securities markets to foreign companies. In 1993, at the height of its privatization efforts, Mexico amended the Securities Market Law (SML) to liberalize treatment of foreign securities and permit Mexican brokerage houses broader latitude to participate in international securities markets. As amended, the SML permits foreign securities to be issued, listed and traded in Mexico's primary and secondary markets. Regulations have been adopted to implement provisions related to the listing and trading of foreign securities in the secondary market. The government has yet to issue the regulations related to initial offerings.

By adopting the amendments to the SML and regulations, the Mexican government is providing international companies the opportunity to create a Mexican version of the ADR. It appears that the legal and regulatory framework established by the law and regulations is very similar to that of the U.S. Because of the financial crisis that resulted from the devaluation of the peso in December 1994, market conditions have changed dramatically. The Mexican capital market of 1993 was flush with investment and was an attractive capital market, especially for other Latin American companies. Now, Mexico is struggling to provide the capital required for local companies to survive, and is increasingly turning to foreign investors. As a result, no foreign companies have as yet registered to trade in Mexico's securities markets.

2. U.S. Policies that Facilitate Integration

a. The American Depositary Receipt Mechanism

i. Introduction

Although the Mexican government's privatization policies and U.S. market conditions were key factors, the integration of the NYSE and BMV would not have been possible without a mechanism to serve as a bridge for Mexican securities to the U.S. market and, conversely, as a bridge to Mexican securities for U.S. investors. As the Mexican privatization program began to unfold, a mechanism, little-used or known in the U.S. securities industry, was "rediscovered" and served as that bridge between the two markets. The mechanism, know as an American Depositary Receipt or ADR, was first used by non-U.S. companies to access the U.S. securities markets in the 1920s, but had been essentially dormant for most of the century.[14] The Telmex privatization in 1991

[14] Other instruments that have emerged that are similar to the ADR are Global Depositary Receipt (GDR) or simply Depositary Receipt (DR).

served as the stimulus for re-energizing the mechanism. The use of ADRs expanded rapidly and they currently trade on all major U.S. exchanges, in the over-the-counter market, and among U.S. institutional investors. During 1996, non-U.S. companies raised US$19.5 billion through 155 offerings in the U.S. and European public and private markets using the ADR mechanism. As of December 1996, the U.S. securities market included 1,600 depositary receipt programs representing 63 countries.

The ADR mechanism has been successful because it reduces many of the traditional barriers U.S. buyers faced when purchasing foreign securities, making it as convenient to purchase ADRs as it is to purchase other shares. From the perspective of foreign companies, the ADR reduces the requirements and responsibilities associated with entry into the U.S. securities market. As a result, the ADR has become an acceptable, and even popular, security in the U.S. market as evidenced by the rapid growth in the number of issues and trading volume. In the following paragraphs, we will examine the structure of the ADR mechanism and the legal framework that supports it.

ii. Description of the ADR Mechanism

Technically, an ADR is a receipt issued by a U.S. bank and represents foreign shares held in deposit by the bank. The holder of the ADR effectively holds receipt entitling her to the foreign shares. The ADR is a legally-recognized, tradeable security subject to U.S. securities laws. The issuing U.S. bank and ADR investors are also subject to U.S. securities laws and regulations. The foreign shares are held in deposit in their country of origin, and they and their issuing company remain subject to the securities laws and regulations of that jurisdiction. The relationship of the foreign company whose shares are on deposit and the U.S. bank issuing the ADRs is defined by a Deposit Agreement which establishes the terms of the ADR program.

The process of establishing an ADR program effectively transforms a foreign share into a legally-recognized and tradeable security in the U.S. market while fundamentally preserving its underlying national characteristics. The process of transformation involves several general steps and the participation of several specialized firms/institutions. The step-by-step summary below describes the process for establishing an ADR program.

Steps for Establishing an ADR Program

Step 1: Foreign Company X makes the decision to establish an ADR program for a new or existing series of shares. Company X selects Brokerage House Y to manage the issuance or repurchase of Company X's local market shares to place on deposit for the program.

Step 2: Company X selects Depositary Bank Z to act as the depositary for Company X's local market shares that are purchased to be included in the ADR program. Company X and Depositary Bank Z negotiate a Deposit

Agreement establishing the terms of the ADR program including the form and transferability of receipts, the custody of deposited shares, the ratio of local shares to ADRs, the procedures for liquidating ADRs, etc..

Step 3: Brokerage House Y purchases local market shares on behalf of Company X in the local stock market and places them on deposit with Depositary Bank Z.

Step 4: Company X and Depositary Bank Z determine the target U.S. exchange / trading system (NYSE, NASDAQ, Portal, etc.) on which the ADR securities will be listed and traded. Depositary Bank Z's U.S. affiliate applies for the required authorizations to list and trade on the exchange (Exchange C). Simultaneously, Company X and Depositary Bank Z's U.S. affiliate file the required application and disclosures statements related to its ADR program with the SEC and request authorization to issue securities and begin trading.

Step 5: Depository Bank Z's U.S. affiliate receives approval for the proposed ADR program from the SEC and thereafter is authorized to begin issuing and trading ADRs in the U.S. Depositary Bank Z's U.S. affiliate receives authorization to list and trade its securities on Exchange C.

Step 6: Depositary Bank Z's U.S. affiliate issues ADRs consistent with the Deposit Agreement between Company X and Depository Bank Z, the program filed with the SEC, and the requirements of Exchange C. The number of ADR's issued are based on the number Company X's shares on deposit with Depositary Bank Z in the local market.

Step 7: Depository Bank Z's U.S. affiliate lists Company X ADRs on Exchange C and works with market makers to promote the securities in the U.S. market. Company X ADRs are offered and sold like other securities offered on Exchange C.

Once an ADR program has been established, the ADRs issued by the Depositary Bank can be traded as any other stock. Driven by demand and supply, the holders of ADRs can freely trade them in the U.S. market. For the most part, the holder of an ADR simply sells the equity in the market when she no longer wants it in her portfolio. However, most ADR programs also provide a right of reconversion if there in insufficient demand in the marketplace. The process for trading and / or reconversion is listed below.

Step 1: Investor A places order with Brokerage House B to purchase ADRs representing Company X's shares held "on deposit" by Depositary Bank Z. Brokerage House B places an order on Exchange C with Depositary Bank Z. Depositary Bank Z delivers Company X ADRs to Brokerage House B in the name of Investor A. Investor A's purchase is cleared and settled, and payment is made to Company X. Company X ADRs are deposited with U.S. custodian in the name of Investor A.

Step 2: Investor A places sell order with Brokerage House B. Company X ADRs are offered on Exchange C. Investor D purchases Company X ADRs from Investor A. Sale is cleared and settled, and payment made to Investor A.

Step 3: Investor D presents ADRs to Depository Bank Z. Depositary Bank Z accepts Company X's ADRs and pays Investor D. Depositary Bank Z can opt to sell the ADRs in the U.S. or remove the ADRs from the market and release the supporting number of local shares into the national market.

The ADR works because it is profitable for the Depositary Bank to perform the function of intermediary between the U.S. and Mexican markets. By having the Depositary Bank perform the essential function of acquiring the stocks, holding them on deposit, receiving and distributing dividends, etc. the U.S. investor does not face the practical barriers, i.e., using unfamiliar brokers, language barriers, uncertain or delayed procedures for clearing and settlement, remittance of dividends, and other high transaction costs. To the U.S. investor, the ADR is operationally comparable to other U.S. securities. The investor phones in an order, buys and sells in U.S. currency, and receives dividends in U.S. dollars. The depositary bank manages the currency exchange, withholding of foreign taxes, payment of dividends, etc. Clearance and settlement normally occur on the fifth business day after the trade date just as with other U.S. securities. The one risk that the U.S. investor bears is the fluctuation in exchange rates. The ADR is traded in dollars and its price tends to rise and fall with the movement of the local currency, as well as the stock price in the domestic market. Thus, if the stock price of Televisa remains the same on the BMV, but the peso falls 5% against the dollar, the Televisa ADR will reflect a 5% drop.

iii. U.S. Legal Framework Governing ADRs

It may appear from the discussion above that there is only one type of ADR in the U.S. securities market. In reality, there are five different ADR programs that are distinguished by which market the issuer intends to target (over-the-counter, national exchanges, private placement, etc) and whether the ADRs will be used to raise capital. The five types of ADRs are described briefly below. A more in-depth discussion is found in Appendix C. a. Unsponsored ADR

b. Sponsored-Level I ADR - Over the Counter Market
c. Sponsored-Level II ADR - Trading on Major Exchanges, no Initial Offerings
d. Sponsored-Level III ADR - Offerings through and Trading on Major Exchanges
5. Rule 144A ADR - Private Placements and Trading with Qualified Institutional Buyers

The development of ADRs in the U.S. has occurred within the legal and regulatory framework established by the Securities Act of 1933, as amended (1933 Act), the Securities Exchange Act of 1934, as amended (1934 Act), and the SEC's regulations. The SEC's regulatory approach to

ADR has been to consider it as a "stand alone" security, technically separate from the underlying foreign security, but basically the same in substance. Based on this approach, the SEC has made no separate legal provisions that apply uniquely to ADRs. Depending on the type of ADR, each is subject to the general accounting, registration and reporting requirements that the SEC imposes on other securities. Under this approach, the registration of an ADR is treated essentially as any domestic security.

The principal SEC regulation affecting ADRs is SEC Rule 12g3-2 issued under the 1934 Act. This rule provides certain criteria under which foreign companies, upon application and approval, can be exempted from the registration requirements of the 1934 Act. This exemption option is used principally with respect to Level I ADR programs. One exemption applies if the class of securities issued "has fewer than 300 holders resident in the United States," Rule 12g3-2(a). Under Rule 12g3-2(b), the foreign issuer may receive an exemption by filing with the SEC the information that it is required to disclose publicly under the laws of its home country, the public information it is required to file with its local exchange, and any information it is required to distribute, or has distributed to its shareholders. In order to maintain the exemption, the foreign issuer must provide the SEC with annual updates, as well as information about the company's aggregate holdings in the U.S.

Level II and III ADR programs permit the issuer to trade on the major exchanges. The issuer does not have the option to apply for an exemption and must file the registration forms required of a domestic issuer including Form F-1 (under the 1933 Act) and Form 20-F (under the 1934 Act). Prior to beginning trading, the depositary and the foreign issuer must file a Form F-6 for the purpose of registering the specific ADRs. Form F-6 requires certification that: 1) the ADR holder can withdraw the deposited securities at any time; 2) the deposited securities are offered and sold in transactions registered (or exempted) with the SEC; and 3) the issuer has filed the necessary reports or forms (unless exempted) as of the date the F-6 is filed. If all of these criteria are met, the F-6 can become effective on filing and trading can begin.

In 1990, the SEC adopted two new regulations that further expanded access to the U.S. securities markets by foreign issuers. The new regulations also resulted in foreign issuers participating in "combined offerings." Regulation S exempts offerings made outside of the U.S. from registration (global offerings). Rule 144A exempts placements and resales in the private QIB market from SEC registration requirements. A combined offering consists of the simultaneous offering of one or more of the following: 1) a Level I offering in OTC market; 2) a private Rule 144A placement; and 3) a Regulation S Global Offering. The additional flexibility provided by the adoption of these two new rules facilitated the expansion of the ADR market during the early 1990s by lowering the threshold for some offerings and providing greater flexibility in structuring offerings in the U.S.

3. Private Sector Factors that Facilitate Privatization

a. The Expansion of U.S. Capital Markets

A key element in the integration of the BMV and the NYSE was the condition of U.S. capital markets during the late 1980s and early 1990s. During that period, U.S. capital markets were enjoying a period of rapid expansion in terms of the numbers of persons participating in the stock market and the amount of capital flowing to the market. Return rates on fixed rate instruments and deposits dropped as a result of unstable inflation rates. Investment in securities became the preferred option for investors seeking higher returns. As the flow to the U.S. securities market increased, new investment products proliferated. Investment managers began to look for ways to diversify their portfolios and diversify their risks as investment in U.S. securities increased. This interest in diversifying portfolios led to interest in international and emerging markets. The privatization of Telmex was timed almost perfectly to coincide with the demand for new investment alternatives. The coincidence of demand and supply in neighboring markets created the conditions precedent for success on both sides. The high profile of the Telmex offering attracted investors to the Mexican market, and Mexican companies responded by establishing ADR programs to capture the interest.

D. Factors that Impede Integration of the U.S. and Mexican Markets

We have discussed above the factors that have facilitated integration of the BMV and the NYSE. In this section, we look at those factors that impede a more complete integration of the markets. Several papers are available that discuss the extent to which regional securities markets have become integrated and the distortions that continue to exist in those markets. Some of the research focuses on the U.S. and Mexican markets, and the ADR mechanism, largely because Mexico (because of Telmex) was the initial focus of the global ADR explosion.[15] At the forefront of inquiries is the work performed by Hargis on the impact of international listing on the development of domestic stock markets in Latin America in general, and Mexico in particular, and Domowitz, who has examined the effects of information and order flow migration as they relate to the integrated U.S. and Mexican markets.

1. Mexican Restrictions on Foreign Ownership

[15] Hargis indicates that in 1994 the value of Mexican companies traded on the NYSE exceed that of any other foreign country.

One of the obstacles to a fuller integration of Mexico and U.S. is equity investment barriers contained in Mexican law that limit foreign ownership of Mexican companies engaged in activities designated as strategic. These restrictions are designed to ensure that industries designated as strategic, i.e., petroleum production, electric power generation and distribution, telecommunications, transportation, etc. remain in the hands of and under the control of Mexican nationals. Indeed, one of the major criticisms of Mexico's otherwise successful privatization program was that it was just a transfer of assets from the government to a concentrated group of elites while foreign investors were limited to minority interests.[16] Some privatized companies, such as Telmex, issued several series of shares, reserving voting series for Mexican nationals and common stock for foreign investors. Only common stock series are eligible to be traded as ADRs. Domowitz, et. al. analyzed the effect that these equity investment barriers had on trading volumes and price by comparing movements of restricted (those limited to Mexican ownership) and unrestricted (those that were open to foreign ownership and could be traded as ADRs) shares. Domowitz, et .al. found that ownership restrictions effectively segment the equity market in Mexico by acting as a barrier to investment and document an economically significant stock price premia for unrestricted shares.[17] In other words, Mexican investors who hold restricted shares, because of the lower demand elasticity created by the restrictions, do not obtain the economic benefits that are achieved by unrestricted shares traded as ADRs. If the restrictions on foreign investment contained in Mexican law were removed, foreign investors would have access to a broader range of securities and Mexican companies could benefit from the same market forces that resulted in premia for their unrestricted shares.

2. Government Intervention in Financial Markets

Mexico's intervention in financial markets, and sometimes the lack thereof as in the case of potentially insolvent private banks, has also been a brake on expanded foreign participation in the Mexican market. The Mexican government, despite its liberalization program, continues to have problems in dealing with its banking system in transparent ways and in managing the exchange rate of the peso in ways that do not try to contradict market forces. These interventions have the effect of distorting financial markets and impeding the flow of investment capital between the two markets. The market is unable to determine the proper signals and respond accordingly in this artificial environment.

The best known and most dramatic recent example of the effect of this interventions is the peso crisis of December 1994, where the government continued as long as possible

[16] Baer and Birch, pp. 34-35.

[17] Domowitz, et. al., p. 24.

to maintain an artificially high exchange rate with respect to the dollar. The exchange rate became so distorted that the government was ultimately forced to devalue the peso much more than might have otherwise been required. This left banks and borrowers with highly exposed positions and impacted interest rates dramatically, resulting in a deep economic and financial crisis from which Mexico has yet to emerge. Had the government permitted the exchange rate to float more freely with the market, the adjustments could have been made over time, and the market could have reacted accordingly.

III. Integration of Securities Markets in Central America

A. Background

The compactness of Central America's[18] geography and the small size of its markets, together with a relatively homogenous culture and language, have long marked Central America as a prime candidate for economic integration. Until the early 1990s, integration efforts yielded few results as government-led, protectionist economies dominated the region. In that environment, the financial sector, including capital markets, developed slowly, and only within the narrow parameters permitted by the public sector.

In the late 1980s, economic liberalization began to take hold in the region, and free trade and open markets became an important part of the region's economic policy. In that liberalized environment, financial markets, driven by the private sector, began to expand and deepen significantly. In 1980, only Costa Rica's financial sector had a stock exchange, the Bolsa Nacional de Valores established in 1976. By 1994 when the Bolsa de Valores de Nicaragua was organized, every country in the region had at least one exchange, and Costa Rica, Guatemala, and Honduras had two each.

Central American Equities Markets
1996

Country	No. of Companies	Volume (millions US$)	Market Capitalization (millions US$)
Costa Rica	114	14.0	782.0
Nicaragua	n/a	n/a	n/a

[18] For the purposes of this study, Central America includes the countries of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama. English-speaking Belize is geographically part of the region, but has elected not to participate in most regional activities with its Spanish-speaking neighbors and, therefore, is excluded from our discussion.

Country	No. of Companies	Volume (millions US$)	Market Capitalization (millions US$)
El Salvador	49	9.8	450
Honduras	111	.5 (1995)	338 (1995)
Guatemala	9	3.8	167.8

(Source: Emerging Stock Markets Factbook 1997)

The stock exchanges in the region have developed based principally on private sector initiative and market demand without the benefit of specific supporting laws and regulations or government initiatives. Governments have generally become involved after the fact to exert supervisory responsibility over the exchanges pursuant to broad authority granted under banking or other broad financial sector legislation. More recently, some governments in the region have adopted specific laws to govern securities and exchanges. Currently, Costa Rica and Guatemala have adopted securities laws, while the other countries in the region have not as yet.

With at least one stock market established in each country in the region by 1994, the foundation was in place for integration to occur. Some members of the private sector have recognized that the total GNP of the countries in the region (approximately $38 billion in 1995) is approximately the same size as the GNP of important emerging securities markets such as Chile and Peru. They reasoned that a larger integrated securities market would be more likely to attract the interest of international investors. Such thinking has been the impetus for the efforts toward integration that have occurred over the past three years.

As in the case of Mexico and the U.S., we examine integration in Central America by determining the extent to which cross-listing is occurring in the region and, if so, whether the number, volume and price of issues being traded indicate that some degree of integration has been reached among some or all of the markets in the region. The principal finding is that the equities market is still underdeveloped in Central America. To the extent cross-border transactions are occurring, they involve debt instruments. There appears to be an increased interest in the region in cross-border transactions, and the infrastructure is being established to support increased cross-border transactions in the future.

B. Factors Facilitating Integration

1. Unilateral and Multilateral Efforts in Support of Regional Integration

Because, for the most part, governmental participation in the development of the stock exchanges of the region has been limited, there exists no regional governmental initiative to support the regionalization of the exchanges. Three countries, Nicaragua, Honduras and Guatemala, signed a Covenant to Facilitate the Financial Integration of the Countries of Central America in 1993. That document provides that the "competent authorities of the countries subscribing to the Covenant will take the necessary actions to accomplish the regional integration of stock markets, including the revision and harmonization of the rules that regulate their stock markets." In fact, little has been done by the governments themselves as follow-up to the agreement.

Perhaps the most substantive step that has been taken towards the ends declared in the Covenant is the development of a project by the Interamerican Development Bank (IDB) to support the harmonization of capital markets and establish minimum standards of self-regulation and clearance and settlement. The project (known as BOLCEN) was initiated in 1994 with the objective of augmenting investor safeguards in the exchanges of the region. More specifically, the project was designed to support the establishment of a Central Securities Depository (CSD) clearing system in each country as a separate legal entity sufficiently capitalized to guarantee each trade and to provide safe custody of securities. BOLCEN also supports the adoption of minimum self-regulatory procedures, including the minimum disclosure of information in prospectuses and the establishment of internationally accepted clearance and settlement procedures.

More importantly, BOLCEN has supported the basic minimum regional standards that each CSD should meet. The goal is that each CSD will meet the Group of Thirty international standards within the next few years. These standards include; 1) comparisons of trades should be made at trading day plus one; 2) delivery versus payment systems should be adopted; and 3) the ISIN numbering system should be used for identifying specific securities.

BOLCEN is currently in its final phase. CSDs have been designed and organized in Guatemala and El Salvador (one already existed in Costa Rica). Honduras and Nicaragua are in the process of organizing CSDs, a process which should be completed by the end of 1997. Each of the new CSDs has selected computerized custodial systems and are in the process of procuring and installing those systems. The systems and software selected will support the development of custodial systems that meet the Group of Thirty criteria. In other words, the key technological elements required to form a securities infrastructure is almost in place to support region-wide trading.

2. Private Sector Initiatives to Facilitate Regional Trading

The private sector, i.e., the exchanges and the CSDs, have taken several steps to integrate trading at a regional level. Although transactions are currently limited to a few small transactions in the debt market, these transactions constitute the beginnings of the development of a regional securities market. It is interesting to note that although there is considerable interest in regional integration, none of the exchanges in countries where there is more than one exchange (Guatemala, Honduras and Costa Rica) is interested in integrating with other exchanges in their same country. Following are some of the current regional integration initiatives by the CSDs and exchanges located in Central America:

a. Reciprocal Access to Trading Floor

The Salvadoran and Guatemalan exchanges have negotiated an agreement to permit reciprocal access to their trading floors by brokers affiliated with either exchange. Transactions can be effected on the floor of either or both by brokers affiliated with either exchange. The exchanges use identical trading systems. The two exchanges are currently working to develop uniform requirements related to new issues, custody, and clearance and settlement. It appears, however, that the integration effort is leading market demand because no cross-border trading had been realized as of mid-1997.

b. Custodial Agreements

The Custody Department (CEVAL) of the National Exchange of Costa Rica initiated a strategy to link the CSDs of the region by negotiating custody representation agreements with CSDs in every country of the region. The Agreements grant reciprocal rights to each party to act as the custodian for the securities of the other party. CEVAL has currently negotiated agreements with the CSDs in every country in the region and with INDEVAL, the CSD in Mexico. In the cases of Nicaragua, El Salvador and Honduras where no CSD exists (or only recently came into existence), CEVAL has entered into agreements with a local bank to act as the CSD.

c. Cross-Listing of Debt Instruments

The initial steps to cross-list securities on the exchanges of the region are being taken. As mentioned previously, Guatemala and El Salvador are preparing uniform regulations that would permit new issues to placed simultaneously in both exchanges. In addition, Bancentro, a Nicaraguan bank, issued investment certificates (short-term debt) that are being jointly listed and traded on the Nicaraguan and Guatemalan exchanges. The Bancentro placement involves a debt, not an equity issue, but demonstrates that a system is in place that could support the cross-border listing and trading of equities when that market develops.

d. International Bond Issues

Although there have been no documented cases where initial offerings were made simultaneously on more than one exchange in the region, the National Stock Exchange in Costa Rica is negotiating with the Government of El Salvador to have 30 percent of an initial offering issued through that exchange, simultaneously with the 70 percent that will be issued through the Salvadoran exchange. Once again, the transaction involves a debt, not an equity issue, but demonstrates that the process may be put into place as the equity market develops.

e. Efforts to Market a Common Technological Platform

The Electronic Exchange of Costa Rica is promoting regional integration through adoption of a common electronic trading platform, the Global Electronic Trading System (GETS). The GETS technology was developed in Chile by the Electronic Exchange of Chile and has been widely promoted in the region. The platform similar to the NASDAQ system in the U.S., is currently in use in at least four Latin American countries (Chile, Costa Rica, Venezuela, and Ecuador).

The GETS permits traders in any connected exchange to monitor the offers, bids and transactions of other participating exchanges simultaneously. Promoters of the GETS platform are exploring ways to receive multilateral assistance to make the system operational throughout the region. They envision an integrated electronic system that would permit simultaneous access by all exchanges in Latin America to the operations of the others using the GETS satellite and electronic technologies. Eventually, as the systems become more harmonized, GETS envisions region-wide trading.

C. Factors Impeding Integration

The largest factor impeding integration is the lack of development of a vibrant equities market on the exchanges of the region. Until that precondition occurs, all other efforts are helpful but ineffective. The Central American securities market lacks the development and depth to realize integration at this point in time. The fact that initial private integration efforts are currently underway provides reason to hope that the market will continue to develop as an integrated market, not separate markets. The initiatives currently underway provide the foundation for integration as the equity market develops.

IV. Council of Securities Regulators for the Americas (COSRA)

A. Description of COSRA

COSRA was founded in 1992 as an effort to promote the development of securities markets in the Americas through improved cooperation among the regulatory agencies in the participating countries of the region. COSRA is open to all regulatory agencies for securities markets in the region of the Americas (North, South and Central America and the Caribbean) and has met annually since its founding 1992 to discuss common issues related to securities market development. COSRA facilitates integration by providing a forum for discussing common problems and working with members to establish guiding principles and general guidelines to address the problems.

As securities markets have expanded in the region, pressures toward regional integration have increased. Regulators throughout the region are faced with the common problem of deciding how much and what kind of regulation is appropriate for an integrated market. Recognizing COSRA's role in the region, the Inter-American Development Bank (IDB) has discussed funding through the IDB's Multilateral Investment Fund (MIF) a variety of activities with COSRA to strengthen regulation of securities markets in the region. The purpose of the following discussion is to identify issues and responses that COSRA has addressed over the past several years.

B. Issues Related to Corporate Disclosure

One of the recurring themes that COSRA has addressed at its annual meetings is the need to establish uniform standards to improve corporate disclosure of information to investors. COSRA members have agreed on the principles related to mandatory systems of corporate disclosure that each participant country will attempt to incorporate into its own legislation. COSRA members have also agreed to use their authority to the fullest extent possible in obtaining information to ensure compliance with domestic securities laws of other countries. COSRA has developed several points that should be addressed by the legislation of each country:

- when disclosure should be provided;
- what disclosure should be provided;
- the methods for providing disclosure; and
- measures to assure the effectiveness of the disclosure system.

To elaborate on these points, a document on "Fundamental Elements of a Sound Disclosure System" was developed. The document emphasizes that disclosure should be not only be provided at the time of the securities offering and at the time of listing for trading on a public securities market but also on a continuing basis (i.e., at least annually, with at least a semi-annual up-date) and upon the occurrence of a material event. The discussion of what disclosure should include focused on the precise subjects to be covered (e.g., nature of the business and its management), the standards governing disclosure (e.g., anti-fraud, materiality, comprehensibility), and especially on the financial information to be provided (e.g, balance sheet, income statement, cash flows) that should be relevant, reliable, comparable and consistent in presentation, based on a comprehensive body of accounting principles, and reviewed and certified by qualified external auditors. The need to harmonize accounting standards throughout the region in order to facilitate disclosure has been discussed at several annual meetings. Recommendations for methods of providing disclosure have emphasized the need for timeliness and broad and equal access to information by investors. Finally, measures to assure the efficacy of the disclosure system have included attention to both appropriate oversight agencies and the need to have adequate sanctions that can be readily imposed when required.

The establishment of a common framework of corporate disclosure within the region is an important foundational element for integrated securities markets. Investors will invest in a cross-listed security only if they have some degree of confidence that the information available in the market is complete and accurate.

C. Facilitating Cross-border Trading of Securities

COSRA has identified creating market incentives for investment in developing and emerging markets, as well as identifying means to facilitate the cross-border trading of securities, as additional areas of focus. It is understood that effective regulation, including international cooperation in supervision is a key factor in gaining the confidence of investors. Three guiding principles have been agreed to:

- that principles should be established for transparency in the reporting of transactions, specifically including systems for the full and immediate dissemination to all potential investors of transaction and quotation information and other essential trading information;
- that automated audit trail systems should be established to permit the immediate collection and review by market monitoring agencies, including self-regulatory

organizations, of trading data in order to facilitate the detection of market irregularities and thereby to contribute to investor protection; and

- that clearance and settlement systems should be developed that provide rapid and efficient settlement, transfer, recording, and custody of securities so that investors can be assured that they will actually receive the securities they have purchased (or the money due them from sales).

Additional documents have been developed that elaborate on these three areas. A document prepared by COSRA entitled 'Principles of Transaction Transparency" defines transaction transparency, discusses levels of transparency, emphasizes the importance of prompt dissemination, deals with transparency in multiple markets, treats the problem of transparency and inter-market competition, and concludes with a discussion of the regulatory role of transparency. A second document on "Principles of Audit Trails" explains how audit trails facilitate surveillance and investigations, indicates the key elements of audit trail information, emphasizes the importance of timely and accurate production of audit trails, and argues for the automation of audit trails. Another document entitled "Principles of Clearance and Settlement" discusses minimum membership standards, financial and operational capacity, the regulatory framework, and system capacity. Finally, a document on "Principles of Cross-Border Surveillance" emphasizes the need for information sharing, cross-border access to regulated firms, and joint supervision. All of these documents facilitate the establishment of a set of uniform principles and issues that relate to supervision of cross-border transactions. As these principles are assimilated into the legal and regulatory framework of each country, they will form a common base from which to build a cross-border securities market.

D. Other COSRA Issues

In addition to the topics discussed above, COSRA has developed a statement of principles for effective market oversight, including the appropriate role of government regulation and of self-regulation. The document on the "Principles of Effective Market Oversight" emphasizes three basic points: (1) authorization, responsibility, and accountability; (2) monitoring for compliance; and (3) enforcement. The issues of monitoring and enforcement are emphasized but are dealt with briefly, whereas a number of points are raised under authorization, responsibility, and accountability. First, market operations and intermediaries should be authorized by some government agency. Second, responsibility and accountability must be placed on market operations and intermediaries. Third, self-regulation, subject to government supervision, should be considered. Fourth, the government should require the self-regulatory agency to meet appropriate standards before it initiates operations and should assure that its rules are appropriate and are enforced fairly and consistently. Fifth, the government and / or the self-regulatory agency should develop high and enforceable standards of conduct for market intermediaries. Sixth, the government should retain authority over the self-regulatory agency, to be exercised at the government's discretion.

Although much of what has been stated in COSRA's documents is too basic, obvious, or general to be directly useful for the development of standards and procedures for the regulation and supervision of securities issuers, securities markets, and securities brokers and dealers, it does provide evidence of cooperation among many of the countries of the region to define a basic framework for addressing some difficult issues related to integration and indicates that the countries have gone beyond merely identifying issues. It also provides clear recognition that an appropriate regulatory and supervisory infrastructure is necessary, not just for the development of securities markets in each country of the region, but also to achieve whatever gains can be realized from increased integration of the region's securities markets. The existence of COSRA ensures that issues can be discussed, information disseminated, and frameworks established for the advancement of a regionally integrated market.

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APPENDIX A
MEXICAN SECURITIES LISTED
IN THE U.S. SECURITIES MARKET
(as of June 1997)

	ISSUE[19]	SERIES	RATIO[20]	DEPOSITARY[21] BANK	MARKET[22]	MECHANISM[23]
1	ACERLA		2	N/A	PINK SHEETS	ADS
2	AHMSA		5	MORGAN	NYSE	ADS
3	APASCO		5	CIT	OTC	ADS
4	ARA		10	BoNY	OTC	ADS
5	ATY		10	NMX/MORGAN	NYSE	ADS
6	BANPAIS	LCP	6	BoNY	NYSE/SEAQ	GDS/ADS
7	BUFETE	CPO	3	CIT	NYSE/SEAQ	GDR
8	CEMEX	A	2	NMX/MORGAN	OTC	ADS
9	CEMEX	B	2	NMX/MORGAN	NASDAQ/ PORTAL	ADS
10	CEMEX	CPO	2	NMX/MORGAN	SEAQ	ADS

[19] The "Issue" column lists the trading name of the security as it is listed in the U.S. and the "Series" column names the series of Mexican shares that are cross listed in the U.S. market.

[20] This column lists the ratio of Mexican-listed shares to one U.S.-listed ADR.

[21] This column indicates the name of the depositary bank sponsoring the ADR program where applicable.

[22] This column lists the market in the U.S. where the instrument is traded.

[23] Although foreign shares listed on the U.S. exchange are generically referred to as ADRs. There are actually several different categories of depositary receipt mechanisms. This column indicates the mechanism used to list the Mexican stock. It includes American Depositary Shares (ADS), Global Depositary Shares (GDS), and Global Depositary Receipts (GDR), in addition to the ADR mechanism.

11	CERAMIC	UB	5	CIT	OTC	ADS
12	CERAMIC	ULD	5	CIT	NYSE	ADS
	ISSUE	SERIES	RATIO	DEPOSITARY BANK	MARKET	MECHANISM
13	CIFRA	B	1	BoNY / BANKER	NASDAQ	ADS
14	COMERCI	UBC	20	BoNY	NYSE	GDS
15	CONTAL		4	N / A	OTC	ADS
16	DESC	C	4	CIT	NYSE	GDS / ADS
17	DINA		4	NMX / MORGAN	NYSE	GDS / ADS
18	DINA	L	4	NMX / MORGAN	NYSE	ADS
19	ELEKTRA	CPO	2	BoNY	NYSE	GDR
20	EMPAQ	B	4	BoNY	NASDAQ / OTC	ADR
21	FEMSA	B	1	CIT	SEAQ / 144A	ADR
22	GACCION	B	10	N / A	N / A	ADS
23	GBMATLA	L	4	CIT	PORTAL / SEAQ	ADS / GDS
24	GCARSO	A1	2	CIT	PORTAL / SEAQ	ADS
25	GEO	B	4	CIT	PORTAL / SEAQ	ADS
26	GFB	B	20	NMX / MORGAN	PORTAL	ADS
27	GFINBUR	B	5	CIT	N / A	ADR
28	GIDUSA	A	2	BoNY	NYSE	ADS
29	GIGANTE	B	10	CIT	PORTAL	ADS
30	GMD	B	1	BoNY	NYSE	ADS / GDS
31	GMD	L	1	BoNY	NYSE	ADS / GDS
32	GRUMA	B	4	N / A	SEAQ	GDR
33	GSERFIN	L	4	CIT	NYSE	ADS

34	HERDEZ	B	25	BoNY	OTC	ADR
35	HOGAR	B	10	BoNY	PORTAL	ADS
	ISSUE	SERIES	RATIO	DEPOSITARY BANK	MARKET	MECHANISM
36	HYLSAMY	BCP	6	BoNY	SEAQ / PORTAL	ADS / GDS
37	ICA		1	BoNY	NYSE	GDR
38	IEM		1	N / A	OTC	ADS
39	IMSA	UBC	9	N / A	NYSE	ADS
40	IUSACEL	D	10	BoNY	NYSE	ADS / GDS
41	IUSACEL	L	10	BoNY	NYSE	ADS / GDS
42	KIMBER	A	10	NMX / MORGAN	OTC	ADS
43	KOF	L	10	BoNY	NYSE / SEAQ	GDR
44	LIVEPOL	C-1	20	CIT	SEAQ	GDR
45	MASECA	B	15	CIT	NYSE	ADS
46	MINSA	C	10	UBoFS / SBC	NYSE	ADR
47	MODERNA	A	4	BoNY	NYSE	GDS / ADS
48	PEPSIGX PERSIGX	CPO CPO	6 2	CIT N / A	NYSE SEAQ	ADS GDR
49	POSADAS	A	20	CIT	PORTAL	GDS / ADS
50	POSADAS	L	20	CIT	PORTAL	GDS / ADS
51	PYP	B	2	N / A	PINK SHEETS	ADR
52	RCENTRO	CPO	9	CIT	NYSE	ADS
53	SANLUIS	CPO	6	NMX / MORGAN	QTC / SEAQ	ADR / GDR
54	SEARS	B1	2	NMX / MORGAN	SEAQ / PORTAL	GDR
55	SFQ	C, L	1	BoNY	NASDAQ	ADS
56	SIDEK	B	4	COMER / NAFI	OTC	ADS

57	SIDEK	L	4	COMER / NAFI	ADS / GDS	
58	SIMEC		20	BoNY	AMEX	GDS / ADS
59	SITUR	B	10	BoNY	PORTAL	ADS
	ISSUE	SERIES	RATIO	DEPOSITARY BANK	MARKET	MECHANISM
60	SYNKRO	B	1	BoNY	NASDAQ	ADR
61	TAMSA		1	NMX / MORGAN	AMEX	GDS / ADS
62	TELECOM	A1	2	CIT	PORTAL / SEAQ	ADS
63	TELMEX	A	1		NASDAQ	ADS
64	TELMEX	L	20	NMX / MORGAN	NYSE	ADS
65	TLEVISA	CPO	2	CIT	NYSE / SEAQ	ADS
66	TMM	A	1	CIT	NYSE	ADS
67	TMM	L	1	CIT	NYSE	ADS
68	TRIBASA		2	BoNY	NYSE	GDS / ADS
69	TTOLMEX	B2	10	CIT	OTC	ADS
70	VITRO		3	CIT	NYSE	ADS

APPENDIX B

PRICE VARIATIONS OF FIVE CROSS-LISTED MEXICAN EQUITIES

INTEGRATION OF U.S. AND MEXICAN SECURITIES MARKETS

as measured by the average difference in daily high and low stock prices of five Mexican companies listed jointly on the NYSE and BMV during April 1997.

		Average difference (in U.S. dollars)		Average Difference (percentage)	
	Series	**High**	**Low**	**High**	**Low**
Jointly Listed Company	**L Shares**				
Telefonos de Mexico (TMX)	**CPO**	$0.05	($0.17)	0.13%	-0.42%
Grupo Televisa (TV)		$0.01	($0.08)	0.07%	-0.33%
Empresas ICA (ICA)		$0.01	($0.08)	0.10%	-0.55%
Grupo Tribasa (GTR)		$0.02	($0.07)	0.37%	-1.10%
Vitro Sociedad Anonima (VTO)		($0.02)	($0.07)	-0.23%	-0.85%
COMPOSITE AVERAGE DIFFERENCE		$0.02	($0.09)	0.09%	-0.65%

COMPARISON OF TRADING PRICES OF FIVE MEXICAN COMPANIES
JOINTLY LISTED ON THE NYSE AND THE BMV - APRIL 1997

SERIES AND DATE	NYSE Trading Price (ADRs in U.S.D.)		BMV Trading Price (Mexican Pesos)		Exchange Rate	# of BMV shares per ADR	U.S. dollar value of BMV shares		Difference (in U.S. dollars)		Difference (percentage)	
	High	Low	High	Low			High	Low	High	Low	High	Low
Telephonos de Shares	**Mexico (TMX) L**											
01-Apr	**$39.500**	$38.250	**15.360**	15.220	**7.914**	20	**$38.82**	$38.46	**$0.68**	($0.21)	**1.76%**	-0.56%
02-Apr	**$38.625**	$38.250	**15.340**	15.220	**7.925**	20	**$38.71**	$38.41	**($0.09)**	($0.16)	**-0.23%**	-0.42%
03-Apr	**$39.375**	$38.500	**15.660**	15.400	**7.961**	20	**$39.34**	$38.69	**$0.03**	($0.19)	**0.08%**	-0.49%
04-Apr	**$39.625**	$38.375	**15.760**	15.580	**7.953**	20	**$39.63**	$39.18	**($0.01)**	($0.81)	**-0.02%**	-2.06%
07-Apr	**$40.500**	$39.750	**16.000**	15.760	**7.9**	20	**$40.51**	$39.90	**($0.01)**	($0.15)	**-0.02%**	-0.37%
08-Apr	**$40.250**	$39.750	**15.820**	15.760	**7.885**	20	**$40.13**	$39.97	**$0.12**	($0.22)	**0.31%**	-0.56%
09-Apr	**$40.375**	$40.000	**15.920**	15.840	**7.884**	20	**$40.39**	$40.18	**($0.01)**	($0.18)	**-0.03%**	-0.45%
10-Apr	**$41.000**	$40.250	**16.200**	15.960	**7.908**	20	**$40.97**	$40.36	**$0.03**	($0.11)	**0.07%**	-0.28%
11-Apr	**$40.625**	$40.000	**16.100**	15.840	**7.917**	20	**$40.67**	$40.02	**($0.05)**	($0.02)	**-0.12%**	-0.04%
14-Apr	**$40.125**	$39.625	**16.060**	15.700	**7.907**	20	**$40.62**	$39.71	**($0.50)**	($0.09)	**-1.22%**	-0.22%
15-Apr	**$41.250**	$40.500	**16.280**	16.000	**7.885**	20	**$41.29**	$40.58	**($0.04)**	($0.08)	**-0.11%**	-0.21%
16-Apr	**$42.875**	$40.750	**16.920**	16.160	**7.892**	20	**$42.88**	$40.95	**($0.00)**	($0.20)	**-0.01%**	-0.50%
17-Apr	**$42.625**	$41.750	**16.820**	16.400	**7.88**	20	**$42.69**	$41.62	**($0.07)**	$0.13	**-0.15%**	0.30%
18-Apr	**$42.250**	$41.625	**16.640**	16.400	**7.869**	20	**$42.29**	$41.68	**($0.04)**	($0.06)	**-0.10%**	-0.14%
21-Apr	**$41.750**	$41.000	**16.420**	16.160	**7.869**	20	**$41.73**	$41.07	**$0.02**	($0.07)	**0.04%**	-0.18%
22-Apr	**$42.000**	$40.875	**16.580**	16.120	**7.865**	20	**$42.16**	$40.99	**($0.16)**	($0.12)	**-0.38%**	-0.28%
23-Apr	**$42.625**	$42.000	**16.760**	16.540	**7.867**	20	**$42.61**	$42.05	**$0.02**	($0.05)	**0.04%**	-0.12%
24-Apr	**$42.750**	$41.719	**16.720**	16.440	**7.855**	20	**$42.57**	$41.86	**$0.18**	($0.14)	**0.42%**	-0.33%
25-Apr	**$42.125**	$41.125	**16.560**	16.300	**7.886**	20	**$42.00**	$41.34	**$0.13**	($0.21)	**0.30%**	-0.52%
28-Apr	**$41.375**	$40.500	**16.380**	16.220	**7.926**	20	**$41.33**	$40.93	**$0.04**	($0.43)	**0.10%**	-1.05%
29-Apr	**$42.250**	$40.875	**16.500**	16.340	**7.96**	20	**$41.46**	$41.06	**$0.79**	($0.18)	**1.91%**	-0.44%
30-Apr	**$41.625**	$41.000	**16.520**	16.360	**7.946**	20	**$41.58**	$41.18	**$0.04**	($0.18)	**0.11%**	-0.43%
									$0.05	**($0.17)**	**0.13%**	**-0.42%**

COMPARISON OF TRADING PRICES OF FIVE MEXICAN COMPANIES
JOINTLY LISTED ON THE NYSE AND THE BMV - APRIL 1997

SERIES AND DATE	NYSE Trading Price (ADRs in U.S.D.)		BMV Trading Price (Mexican Pesos)		Exchange Rate	# of BMV shares per ADR	U.S. dollar value of BMV shares		Difference (in U.S. dollars)		Difference (percentage)	
	High	Low	High	Low			High	Low	High	Low	High	Low
Grupo (TV) Televisa												
01-Apr	$25.250	$24.875	99.500	98.000	7.914	2	$25.15	$24.77	$0.10	$0.11	0.42%	0.44%
02-Apr	$25.125	$24.813	98.800	98.000	7.925	2	$24.93	$24.73	$0.19	$0.08	0.77%	0.33%
03-Apr	$25.375	$25.000	101.400	99.300	7.961	2	$25.47	$24.95	($0.10)	$0.05	-0.39%	0.21%
04-Apr	$25.500	$24.875	100.600	99.800	7.953	2	$25.30	$25.10	$0.20	($0.22)	0.80%	-0.89%
07-Apr	$26.000	$25.000	101.800	101.000	7.9	2	$25.77	$25.57	$0.23	($0.57)	0.88%	-2.23%
08-Apr	$25.875	$25.625	101.700	101.000	7.885	2	$25.80	$25.62	$0.08	$0.01	0.31%	0.03%
09-Apr	$26.125	$25.750	103.200	102.000	7.884	2	$26.18	$25.88	($0.05)	($0.13)	-0.21%	-0.48%
10-Apr	$26.000	$25.625	103.000	101.200	7.908	2	$26.05	$25.59	($0.05)	$0.03	-0.19%	0.12%
11-Apr	$25.625	$25.250	101.600	100.500	7.917	2	$25.67	$25.39	($0.04)	($0.14)	-0.16%	-0.55%
14-Apr	$25.375	$25.125	103.000	99.200	7.907	2	$26.05	$25.09	($0.68)	$0.03	-2.60%	0.13%
15-Apr	$25.750	$25.500	103.000	100.400	7.885	2	$26.13	$25.47	($0.38)	$0.03	-1.44%	0.13%
16-Apr	$26.750	$25.625	105.400	103.000	7.892	2	$26.71	$26.10	$0.04	($0.48)	0.15%	-1.83%
17-Apr	$26.375	$26.125	103.700	102.500	7.88	2	$26.32	$26.02	$0.06	$0.11	0.21%	0.42%
18-Apr	$26.250	$26.000	103.200	102.300	7.869	2	$26.23	$26.00	$0.02	($0.00)	0.08%	-0.00%
21-Apr	$26.000	$25.375	102.300	100.000	7.869	2	$26.00	$25.42	($0.00)	($0.04)	-0.00%	-0.16%
22-Apr	$25.750	$25.000	101.000	99.000	7.865	2	$25.68	$25.17	$0.07	($0.17)	0.26%	-0.69%
23-Apr	$25.625	$24.375	100.000	96.200	7.867	2	$25.42	$24.46	$0.20	($0.08)	0.80%	-0.33%
24-Apr	$25.000	$24.125	98.500	95.900	7.855	2	$25.08	$24.42	($0.08)	($0.29)	-0.32%	-1.20%
25-Apr	$24.250	$23.750	95.500	90.000	7.886	2	$24.22	$22.83	$0.03	$0.92	0.12%	4.05%
28-Apr	$24.000	$22.625	93.200	91.000	7.926	2	$23.52	$22.96	$0.48	($0.34)	2.05%	-1.47%
29-Apr	$23.250	$22.000	92.500	90.000	7.96	2	$23.24	$22.61	$0.01	($0.61)	0.04%	-2.71%
30-Apr	$23.250	$22.750	92.400	91.000	7.946	2	$23.26	$22.90	($0.01)	($0.15)	-0.03%	-0.68%
									$0.01	($0.08)	0.07%	-0.33%

COMPARISON OF TRADING PRICES OF FIVE MEXICAN COMPANIES
JOINTLY LISTED ON THE NYSE AND THE BMV - APRIL 1997

SERIES AND DATE		NYSE Trading Price (ADRs in U.S.D.)		BMV Trading Price (Mexican Pesos)		Exchange Rate	# of BMV shares per ADR	U.S. dollar value of BMV shares		Difference (in U.S. dollars)		Difference (percentage)	
		High	Low	High	Low			High	Low	High	Low	High	Low
Empresas (ICA)	ICA												
	01-Apr	**$15.875**	$15.625	**126.000**	124.300	**7.914**	1	**$15.92**	$15.71	**($0.05)**	($0.08)	**-0.29%**	-0.52%
	02-Apr	**$15.875**	$15.625	**125.500**	124.300	**7.925**	1	**$15.84**	$15.68	**$0.04**	($0.06)	**0.25%**	-0.38%
	03-Apr	**$15.750**	$15.500	**125.900**	124.000	**7.961**	1	**$15.81**	$15.58	**($0.06)**	($0.08)	**-0.41%**	-0.49%
	04-Apr	**$16.250**	$15.375	**128.500**	125.100	**7.953**	1	**$16.16**	$15.73	**$0.09**	($0.35)	**0.57%**	-2.26%
	07-Apr	**$16.500**	$16.125	**129.500**	127.900	**7.9**	1	**$16.39**	$16.19	**$0.11**	($0.06)	**0.66%**	-0.40%
	08-Apr	**$16.250**	$16.125	**127.700**	127.200	**7.885**	1	**$16.20**	$16.13	**$0.05**	($0.01)	**0.34%**	-0.04%
	09-Apr	**$16.125**	$15.875	**127.500**	126.900	**7.884**	1	**$16.17**	$16.10	**($0.05)**	($0.22)	**-0.29%**	-1.37%
	10-Apr	**$15.875**	$15.750	**126.100**	124.500	**7.908**	1	**$15.95**	$15.74	**($0.07)**	$0.01	**-0.44%**	0.04%
	11-Apr	**$15.625**	$15.250	**125.200**	121.500	**7.917**	1	**$15.81**	$15.35	**($0.19)**	($0.10)	**-1.20%**	-0.63%
	14-Apr	**$15.250**	$14.750	**122.200**	117.000	**7.907**	1	**$15.45**	$14.80	**($0.20)**	($0.05)	**-1.32%**	-0.32%
	15-Apr	**$15.125**	$14.875	**122.000**	116.500	**7.885**	1	**$15.47**	$14.77	**($0.35)**	$0.10	**-2.25%**	0.68%
	16-Apr	**$15.000**	$14.750	**117.600**	115.500	**7.892**	1	**$14.90**	$14.64	**$0.10**	$0.11	**0.66%**	0.79%
	17-Apr	**$15.000**	$14.750	**117.600**	116.000	**7.88**	1	**$14.92**	$14.72	**$0.08**	$0.03	**0.51%**	0.20%
	18-Apr	**$15.000**	$14.750	**117.000**	116.000	**7.869**	1	**$14.87**	$14.74	**$0.13**	$0.01	**0.88%**	0.06%
	21-Apr	**$14.875**	$14.625	**116.800**	116.000	**7.869**	1	**$14.84**	$14.74	**$0.03**	($0.12)	**0.22%**	-0.79%
	22-Apr	**$14.875**	$14.625	**117.000**	116.000	**7.865**	1	**$14.88**	$14.75	**($0.00)**	($0.12)	**-0.01%**	-0.84%
	23-Apr	**$15.000**	$14.750	**117.000**	116.200	**7.867**	1	**$14.87**	$14.77	**$0.13**	($0.02)	**0.86%**	-0.14%
	24-Apr	**$14.875**	$14.625	**116.300**	115.600	**7.855**	1	**$14.81**	$14.72	**$0.07**	($0.09)	**0.47%**	-0.62%
	25-Apr	**$15.125**	$14.500	**118.300**	115.800	**7.886**	1	**$15.00**	$14.68	**$0.12**	($0.18)	**0.82%**	-1.25%
	28-Apr	**$15.000**	$14.625	**118.000**	117.000	**7.926**	1	**$14.89**	$14.76	**$0.11**	($0.14)	**0.75%**	-0.92%
	29-Apr	**$15.000**	$14.625	**119.000**	118.000	**7.96**	1	**$14.95**	$14.82	**$0.05**	($0.20)	**0.34%**	-1.34%
	30-Apr	**$15.000**	$14.625	**118.000**	118.000	**7.946**	1	**$14.85**	$14.85	**$0.15**	($0.23)	**1.01%**	-1.52%
										$0.01	**($0.08)**	**0.10%**	**-0.55%**

COMPARISON OF TRADING PRICES OF FIVE MEXICAN COMPANIES
JOINTLY LISTED ON THE NYSE AND THE BMV - APRIL 1997

SERIES AND DATE		NYSE Trading Price (ADRs in U.S.D.)		BMV Trading Price (Mexican Pesos)		Exchange Rate	# of BMV shares per ADR	U.S. dollar value of BMV shares		Difference (in U.S. dollars)		Difference (percentage)	
		High	Low	High	Low			High	Low	High	Low	High	Low
Grupo (GTR)	**Tribasa**												
	01-Apr	**$6.125**	$6.000	**24.400**	24.200	**7.914**	2	**$6.17**	$6.12	**($0.04)**	($0.12)	**-0.67%**	-1.89%
	02-Apr	**$6.125**	$5.875	**24.100**	23.800	**7.925**	2	**$6.08**	$6.01	**$0.04**	($0.13)	**0.71%**	-2.19%
	03-Apr	**$6.125**	$5.875	**24.500**	23.900	**7.961**	2	**$6.16**	$6.00	**($0.03)**	($0.13)	**-0.49%**	-2.15%
	04-Apr	**$6.250**	$6.000	**24.600**	24.300	**7.953**	2	**$6.19**	$6.11	**$0.06**	($0.11)	**1.03%**	-1.81%
	07-Apr	**$6.250**	$6.000	**24.800**	24.450	**7.9**	2	**$6.28**	$6.19	**($0.03)**	($0.19)	**-0.45%**	-3.07%
	08-Apr	**$6.250**	$6.125	**25.100**	24.400	**7.885**	2	**$6.37**	$6.19	**($0.12)**	($0.06)	**-1.83%**	-1.03%
	09-Apr	**$6.375**	$6.125	**25.000**	24.750	**7.884**	2	**$6.34**	$6.28	**$0.03**	($0.15)	**0.52%**	-2.45%
	10-Apr	**$6.375**	$6.125	**24.900**	24.650	**7.908**	2	**$6.30**	$6.23	**$0.08**	($0.11)	**1.23%**	-1.75%
	11-Apr	**$6.125**	$6.000	**24.700**	24.000	**7.917**	2	**$6.24**	$6.06	**($0.11)**	($0.06)	**-1.84%**	-1.04%
	14-Apr	**$6.125**	$5.625	**23.700**	22.800	**7.907**	2	**$5.99**	$5.77	**$0.13**	($0.14)	**2.17%**	-2.46%
	15-Apr	**$6.000**	$5.875	**23.800**	23.000	**7.885**	2	**$6.04**	$5.83	**($0.04)**	$0.04	**-0.61%**	0.71%
	16-Apr	**$6.125**	$5.875	**24.000**	23.200	**7.892**	2	**$6.08**	$5.88	**$0.04**	($0.00)	**0.71%**	-0.07%
	17-Apr	**$6.125**	$5.875	**23.600**	23.000	**7.88**	2	**$5.99**	$5.84	**$0.14**	$0.04	**2.26%**	0.64%
	18-Apr	**$6.000**	$5.750	**23.400**	22.700	**7.869**	2	**$5.95**	$5.77	**$0.05**	($0.02)	**0.88%**	-0.34%
	21-Apr	**$6.000**	$5.750	**23.050**	23.000	**7.869**	2	**$5.86**	$5.85	**$0.14**	($0.10)	**2.42%**	-1.64%
	22-Apr	**$5.875**	$5.750	**22.900**	22.500	**7.865**	2	**$5.82**	$5.72	**$0.05**	$0.03	**0.89%**	0.50%
	23-Apr	**$5.875**	$5.625	**23.000**	22.600	**7.867**	2	**$5.85**	$5.75	**$0.03**	($0.12)	**0.48%**	-2.10%
	24-Apr	**$5.875**	$5.750	**22.700**	22.450	**7.855**	2	**$5.78**	$5.72	**$0.10**	$0.03	**1.65%**	0.59%
	25-Apr	**$5.875**	$5.625	**23.300**	22.200	**7.886**	2	**$5.91**	$5.63	**($0.03)**	($0.01)	**-0.58%**	-0.09%
	28-Apr	**$5.875**	$5.750	**23.100**	22.700	**7.926**	2	**$5.83**	$5.73	**$0.05**	$0.02	**0.79%**	0.38%
	29-Apr	**$5.750**	$5.625	**23.000**	22.600	**7.96**	2	**$5.78**	$5.68	**($0.03)**	($0.05)	**-0.50%**	-0.94%
	30-Apr	**$5.750**	$5.625	**23.000**	22.800	**7.946**	2	**$5.79**	$5.74	**($0.04)**	($0.11)	**-0.68%**	-1.98%
										$0.02	**($0.07)**	**0.37%**	**-1.10%**

COMPARISON OF TRADING PRICES OF FIVE MEXICAN COMPANIES
JOINTLY LISTED ON THE NYSE AND THE BMV - APRIL 1997

SERIES AND DATE	NYSE Trading Price (ADRs in U.S.D.)		BMV Trading Price (Mexican Pesos)		Exchange Rate	# of BMV shares	U.S. dollar value of BMV shares		Difference (in U.S. dollars)		Difference (percentage)	
	High	Low	High	Low		per ADR	High	Low	High	Low	High	Low
Vitro Sociedad Anonima (VTO)												
01-Apr	**$7.500**	$7.375	**19.900**	19.560	**7.914**	3	**$7.54**	$7.41	**($0.04)**	($0.04)	**-0.58%**	-0.54%
02-Apr	**$7.500**	$7.250	**19.700**	19.260	**7.925**	3	**$7.46**	$7.29	**$0.04**	($0.04)	**0.57%**	-0.56%
03-Apr	**$7.625**	$7.500	**20.100**	19.800	**7.961**	3	**$7.57**	$7.46	**$0.05**	$0.04	**0.67%**	0.52%
04-Apr	**$7.750**	$7.375	**20.600**	20.050	**7.953**	3	**$7.77**	$7.56	**($0.02)**	($0.19)	**-0.27%**	-2.49%
07-Apr	**$8.000**	$7.750	**20.850**	20.700	**7.9**	3	**$7.92**	$7.86	**$0.08**	($0.11)	**1.04%**	-1.41%
08-Apr	**$8.000**	$7.750	**20.950**	20.700	**7.885**	3	**$7.97**	$7.88	**$0.03**	($0.13)	**0.37%**	-1.60%
09-Apr	**$8.125**	$7.875	**21.450**	20.900	**7.884**	3	**$8.16**	$7.95	**($0.04)**	($0.08)	**-0.45%**	-0.98%
10-Apr	**$8.000**	$7.625	**21.100**	20.050	**7.908**	3	**$8.00**	$7.61	**($0.00)**	$0.02	**-0.06%**	0.25%
11-Apr	**$7.625**	$7.500	**20.400**	19.900	**7.917**	3	**$7.73**	$7.54	**($0.11)**	($0.04)	**-1.36%**	-0.54%
14-Apr	**$7.500**	$7.375	**20.700**	19.600	**7.907**	3	**$7.85**	$7.44	**($0.35)**	($0.06)	**-4.50%**	-0.83%
15-Apr	**$7.750**	$7.625	**20.550**	20.100	**7.885**	3	**$7.82**	$7.65	**($0.07)**	($0.02)	**-0.88%**	-0.29%
16-Apr	**$8.000**	$7.750	**21.150**	20.500	**7.892**	3	**$8.04**	$7.79	**($0.04)**	($0.04)	**-0.49%**	-0.55%
17-Apr	**$7.875**	$7.625	**20.800**	20.400	**7.88**	3	**$7.92**	$7.77	**($0.04)**	($0.14)	**-0.55%**	-1.82%
18-Apr	**$8.125**	$7.875	**21.350**	20.800	**7.869**	3	**$8.14**	$7.93	**($0.01)**	($0.05)	**-0.18%**	-0.69%
21-Apr	**$8.375**	$8.000	**21.900**	21.200	**7.869**	3	**$8.35**	$8.08	**$0.03**	($0.08)	**0.31%**	-1.02%
22-Apr	**$8.500**	$8.125	**22.350**	21.750	**7.865**	3	**$8.53**	$8.30	**($0.03)**	($0.17)	**-0.29%**	-2.06%
23-Apr	**$8.500**	$8.250	**22.300**	21.800	**7.867**	3	**$8.50**	$8.31	**($0.00)**	($0.06)	**-0.05%**	-0.76%
24-Apr	**$8.375**	$8.125	**22.000**	21.500	**7.855**	3	**$8.40**	$8.21	**($0.03)**	($0.09)	**-0.32%**	-1.05%
25-Apr	**$8.250**	$8.125	**21.700**	21.600	**7.886**	3	**$8.26**	$8.22	**($0.01)**	($0.09)	**-0.06%**	-1.12%
28-Apr	**$8.125**	$8.000	**21.500**	21.150	**7.926**	3	**$8.14**	$8.01	**($0.01)**	($0.01)	**-0.16%**	-0.07%
29-Apr	**$8.250**	$8.000	**21.650**	21.300	**7.96**	3	**$8.16**	$8.03	**$0.09**	($0.03)	**1.11%**	-0.34%
30-Apr	**$8.125**	$7.875	**21.300**	21.000	**7.946**	3	**$8.04**	$7.93	**$0.08**	($0.05)	**1.03%**	-0.68%
									($0.02)	**($0.07)**	**-0.23%**	**-0.85%**

APPENDIX C

DESCRIPTION OF THE ADR PROGRAMS AVAILABLE TO FOREIGN COMPANIES

Unsponsored ADR Programs

An unsponsored ADR program is one that is set up by a U.S. bank without the involvement of the non-U.S. issuer. On its own initiative, the U.S. bank may purchase securities in the non-U.S. market, establish a program and receive approval from the SEC, and offer the ADRs to U.S. investors. This is the simplest ADR program and requires only minimal registration with and reporting to the SEC. To establish an unsponsored program, the bank registers the program with the SEC using a Form F-6, which does not require any disclosure relating to the non-U.S. issuer or authorization from the foreign company. In addition, this registration does not give rise to any reporting obligation for the non-U.S. company. The U.S. depositary bank retains total discretion over the conduct of the ADR program, including the option to terminate it. During the early development of the ADR market, unsponsored ADR programs predominated because they were a quick and easy way to list foreign shares for trading. As the market has developed and U.S. investors and foreign issuers have opted for more sophisticated programs which permit a broader range of options for the foreign companies, sponsored ADR programs have become the most prevalent in today's market.

Sponsored ADR Programs

A sponsored ADR program is one that is established at the direction of the non-U.S. issuer. It is managed by the depositary bank in accordance with a formal agreement executed by the issuer and the depositary bank. This agreement, normally called a Deposit Agreement, defines the terms of operation of the ADR depositary facility.

ADRs issued in a sponsored program must be registered with the SEC. The degree of disclosure required depends upon the ways in which ADRs issued under the program will be traded and the potential of using the ADRs to raise capital. There are three levels of sponsored ADR programs as described below:

Level I ADR Program

A Level I ADR program is designed to trade in the public over-the-counter (OTC) (unlisted pink sheets) market. It is for foreign companies that want to develop an initial shareholder base in the U.S. Level I depositary receipts trade in the OTC public markets in reliance on a Rule 12g3-2(b) exemption from 1934 Exchange Act registration and reporting requirements. The use of a Level IADR program provides foreign issuers with a simple and effective mechanism to trade in the U.S. securities market and build a core group of investors with minimal regulatory intervention. A Level-I program is generally the initial step into the U.S. public equity market.

The advantage of a Level I program is that it is not subject to the most rigorous SEC disclosure requirements or to compliance with U.S. Generally Accepted Accounting

Principles (USGAAP). It requires that the depositary bank file Form F-6 with the SEC and, as mentioned previously, it falls under an exemption from Rule 12g3-2(b) registration and reporting requirements.

Level II ADR Program

A Level II ADR Program is designed to respond to foreign firms that want to raise their visibility and enhance the liquidity of their shares by participating in the U.S. securities market without making a public offering. ADRs issued under a Level IIADR program trade on the major U.S. exchanges (NYSE, NASDAQ, AMEX, etc) in compliance with 1934 Exchange Act registration and reporting requirements, but it is not permissible for the issuer to make a public offering. Sponsored Level II ADRs are used by companies that prefer to have their securities listed and traded on a U.S. exchange rather than traded in the OTC market.

Level II programs must meet higher registration and reporting requirements than the Level I program. The SEC requires the foreign issuer to comply with USGAAP and SEC disclosure and registration requirements. The company must file Forms F-6 and 20-F with the SEC. In addition, the foreign issuer must meet the listing requirements of the U.S. exchange on which its ADRs are listed.

Level III ADR Programs

Level III ADR programs are designed for those foreign companies that want to become listed on a major exchange and raise capital in the US. ADRs from a Level III program can be offered to investors through a public offering, and are authorized to trade just as a Level II ADR. The foreign issuer is required to register the offering under the 1933 Securities Act and to comply with the registration and reporting requirements of the 1934 Exchange Act. ADRs issued through a Level III program are listed and traded on an exchange. The foreign issuer must reconcile to USGAAP and comply with the listing requirements of the U.S. exchange on which it chooses to list. The Level III program contains the most stringent requirements of all ADR programs and requires that the issuer to file SEC forms F-1 and 20-F.

Rule 144A Program

The emergence of ADRs as a mechanism for accessing the U.S. market coincided with the adoption of Rule 144A by the SEC in 1990. Rule 144A establishes a non-exclusive safe harbor from the registration requirements of the Securities Act of 1933, for the resale of securities issued in a non-public offering. The adoption of the rule made it much easier, less burdensome, and less expensive for foreign issuers to raise capital in the U.S. private placement market with qualified institutional buyers (QIBs). As it relates to ADRs, Rule 144A permits depositary banks to place ADRs through private offerings with QIBs without registering the transaction with the SEC. Rule 144A depositary receipts trade on Portal, a very restricted trading system used only by QIBs in the U.S. Use of the Rule 144A mechanism eliminates the need for registration and reporting requirements. However, it also affects the liquidity of the issues because the QIB is a more restricted market, than the OTC market or national exchanges.

Rule 144A depositary receipts may be placed as stand alone issues or "side-by-side" with Level I ADRs providing QIBs with the additional benefit that:

- o a foreign issuer must comply with the reporting requirements under Rule 12g3-2(b) upon which the Level I ADR is based.
- o the Rule 144A resale restriction lifts after 3 years and QIBs can then trade the depositary receipts into the broader Level I OTC market.

Since adoption of Rule 144A, it has become a preferred mechanism for foreign issuers because it provides access to large institutional investors without the more strict registration and reporting requirements of Level II and III programs.